

Practical Guide to Multi-currency Accounting

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This manual is addressed in particular to those people who administer an accounting in more than one currency, or who have plans to change over to this type of accounting. Problems like exchange rates, rounding, revaluations and end-of-year closing are explained using simple examples. The guide has also kept in consideration the types of questions and problems that Banana users submit directly to our technical support service on a daily basis, thus trying to deal with some actual questions that ought to help in the running of a multi-currency accounting

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Chapter 1

Currency Conversion

Introduction

Each nation has its own currency and in order to obtain other currencies, it is necessary to purchase them in exchange for your own. The price of one currency against another is called the exchange rate. Changing money means to exchange amounts from one currency into another.

The exchange (the exchange rate) is the factor that indicates the conversion rate. The factors of exchange (the exchange) changes constantly.

For example, on 1st January, 2001:

- 1 Euro (EUR) corresponded to 0.94160 US Dollar (USD)
- 1 US Dollar corresponded to 1.06202 Euro
- 1 EUR corresponded to 1.52170 Swiss Franc (CHF)
- 1 EUR corresponded to 107.860 Japanese Yen (JPY)

Exchange Rate Variables

The buying and selling of currency takes place on a free market. The price (the exchange) is fixed on the basis of the rules of supply and demand. The exchange rate varies constantly.

The difference in conversion can be more or less important according to exchange rate fluctuations.

<i>Date</i>	<i>EUR/USD Exchange</i>	<i>EUR conversion of USD 1000.00</i>	<i>Conversion changes compared to 01-01-01</i>
01-01-2001	0.9416	1062.02	
31-03-2001	0.8792	1137.40	75.38
30-06-2001	0.8495	1177.16	115.14
30-09-2001	0.9098	1099.14	37.12

Basic Exchange Rate

The exchange refers to the basic currency. There are always two different exchange values between two currencies, depending on which currency is used as the basic currency.

For the USD and the Euro there are, therefore, two different exchange rates:

- If the EUR is being exchanged, then the rate is 0.94160
1 Euro (EUR) corresponds to 0.94160 US Dollar (USD)
- If the USD is being exchanged, then the rate is 1.06202
1 US Dollar corresponds to 1.06202 Euro

This document will use the Euro as its basic currency and the other currencies will be in ratio to it.

Inverse Exchange Rates

Having a EUR exchange to the USD of 0.9416, we can find the USD/EUR exchange quite simply by turning them back to front. Mathematically you need to divide by one for the exchange rate.

The inverse exchange rates obtained are the following:

<i>Exchange</i>	<i>Inverted exchange 1/exchange</i>	<i>Conversion 10000 original exchange</i>	<i>Conversion 10000 inverted exchange</i>	<i>Difference</i>
EUR/USD 0.94160	1.06202209	9'416.00	9'416.00	0.00
USD/EUR 1.06202	0.941601853	1062.02	1062.20	0.18

The conversions calculated using an inverse exchange rate can be different from the original ones due to rounding.

You should avoid using inverse exchange rates. To avoid rounding problems, exchange rates in the Euro zone all refer to 1 Euro and the use of inverse exchange rates has been forbidden.

Once the basic currency has been chosen, you should not change and you should not use inverse exchange rates.

Multiplier Effect

There are currencies that have very wide exchange rates. Continuing to use 1st January, 2001:

1 US Dollar = 670,800 Turkish Lira

1 Turkish Lira (TRL) = 0.00000149 US Dollar (USD)

Instead of using all those zeroes you could say that

1000 Turkish Lira (TRL) = 0.00149 US Dollar (USD)

The multiplier in this case is 1000 instead of 1.

Precision

An exchange rate is normally specified with the precision of at least 6 figures after the decimal point.

There are cases, however, where greater precision is needed.

1 Turkish Lira (TRL) = 0.00000149 US Dollar (USD)

When the precision is changed and the exchange rate is rounded in a different way, the amounts will also alter. The precision with which a specific exchange rate is specified is very important.

Lowest Denomination

For coin and paper money, especially, low denominations are used. As a rule the lowest denomination for Swiss francs is five centimes (0.05). When exchanges are made, for example in:

1 EUR = 1.52170 Swiss Franc

<i>EUR</i>	<i>Exchange</i>	<i>Actual con- version to CHF</i>	<i>Rounded to lowest CHF denomination</i>	<i>Difference</i>	<i>Actual exchange</i>
10.00	1.52170	15.21	15.20	0.01	1.52

Calculation of Exchange Rates and Conversions

When the Euro is the basic currency

Exchange factor EUR/USD is 0.94160

1 Euro (EUR) corresponds to 0.94160 US Dollar (USD).

Conversion calculation:

Multiply the basic currency amount by the exchange factor.

EUR 100 by 0.94160 = USD 94.16

Calculate the amount in basic currency:

You divide the destination currency by the exchange rate.

USD 100 divided by 0.94160 = EUR 106.20

Calculate the exchange factor:

Divide the amount in basic currency by the amount of destination currency.

EUR 94.16 divided by USD 100 = 0.94160

Purchase and Sale Exchange Rates

Banks process the purchase and sale of currencies on which they make a margin of profit. They apply different exchange rates according to whether a certain currency is being bought or sold.

Sale: The bank receives local currency and gives (sells) foreign currency.

Purchase: The bank receives (buys) foreign currency and gives local currency.

Exchange Rate for Notes and Currency (Premium)

Currency exchange: Written exchange (from one account to another)

Bank note exchange: Exchange using cash money.

Premium: Commission for converting a written amount into cash.

For currency exchange, the banks have a lesser margin (difference purchase/sale) compared to the one for bank notes. When you want to transform a written value (credit on the account) for cash, the bank applies a commission, called a premium.

Fixed Euro Exchange Rates

The Euro has been the single currency in 12 European countries since the beginning of 2002. On 1.1.2000 the exchange rates between the national currencies and the Euro were definitively fixed. These exchange rates are fixed and thus the conversion between all the participating currencies (ITL/DEM/FRF/....) remains unchanged.

Differences Caused when Changing Back to Basic Currency

When an amount is exchanged into another currency, one would expect that by changing it back you would come up with the same amount as the one you started with.

<i>Basic amount</i>	<i>Exchange</i>	<i>Conversion</i>	<i>Return</i>
100.00	0.94160	94.16	100.00

However, you do not always come up with the same amount when converting currency back. Due to rounding there may be cases where you cannot return to the same value again.

<i>Basic EUR amount</i>	<i>Exchange</i>	<i>USD Conversion</i>	<i>Return to EUR</i>	<i>EUR Difference</i>
328.67	0.94160	309.48	328.67	
328.68	0.94160	309.49	328.69	0.01
328.69	0.94160	309.49	328.69	

Both of the 328.68 and 328.69 amounts give the same conversion of 309.49. Changing back the amount of 309.49 you get 328.69. There is thus no USD amount which when changed back at the rate of 0.94160 will give an amount of 328.68.

Resolution of Differences in Final Totals

The total of split amounts when converting will not always give the same total as the conversion of the whole amount.

In this example the amount of 2.16 EUR gives a conversion of USD 2.03. Splitting the amount and adding the two conversions you get 2.04.

	<i>EUR Amount</i>	<i>Exchange</i>	<i>USD Conversion</i>
	2.16	0.9416	2.03
	1.08	0.9416	1.02
	1.08	0.9416	1.02
Total	2.16		2.04
Difference			0.01

These mathematical differences can only be eliminated by entering them in an appropriate manner.

Chapter 2

Exchange Rates and Accounting Problems

Multi-Currency Accounting

You talk about multi-currency accounting when the accounts are kept in various currencies. The need to have a multi-currency accounting arises when a company has bank/cash/debtors accounts in more than one currency.

Even if just one account is in a foreign currency it is necessary to administer a multi-currency accounting.

Basic Currency

The amounts that refer to different currencies cannot be added directly together. You must have a basic currency to be used as a reference point and to use when adding up the totals.

The principles of accounting call for the sum of the debit balances to correspond to those of the credit ones. In order to verify the accounting balances, you have to use just one currency to add up the totals.

If you are working with various currencies, the first thing you have to do is to decide which one will be the basic currency. Once the basic currency has been chosen and entries have been made on the accounting, it will no longer be possible to alter the basic currency. In order to do this, you will have to close the accounting and open a new one.

The basic currency is also used to establish the Balance Sheet and to calculate the Profit and Loss Account.

Each Amount has a Conversion to Basic Currency

To be able to add the totals and check that all the entries balance, it is necessary to have a conversion to basic currency for each transaction. For each amount, therefore, there must be a conversion to basic currency. In this way you can check that the total of the debit entries is the same as the total of the credit ones.

If the basic currency is EUR and there are entries in dollars, then for each dollar entry you need to have its conversion to EUR. All of the EUR amounts will be added up in order to check that the accounting balances.

Account Currency

Each account has its own currency symbol which indicates in which currency the account will be administered.

You must therefore indicate what the currency of the account will be. Each account will then have its own balance expressed in its own currency.

Only entries in this currency will be permitted on this account. If the account is in Euro, then there can only be Euro entries on this account; if the account is in USD, then there can only be entries in the specified USD currency on this account.

When you have to administer entries in YEN, then you have to have an account whose symbol is the YEN.

Account Balance in Basic Currency

For each account, alongside the balance in the account's own currency, the balance in basic currency will also be kept. Alongside the account currency balance, you will always have the balance in basic currency.

An account kept in foreign currency will have its balance in that currency. The bank account card in USD has to correspond exactly to the bank statement as far as the USD amounts are concerned. The value in basic currency will always be specified for each accounting entry. If the account is in USD there will be other entries converting the amounts to EUR. The EUR balance will be given by the sum of all the entries expressed in EUR. The actual balance in basic currency will depend on the exchange rate factors used to calculate the conversion of each, single entry to EUR.

If on a given day you take the actual balance in USD and convert it to EUR at the daily exchange rate, you will get a different conversion to the balance on the account in basic currency. This difference is due to the fact that the exchange rate used for entries on a daily basis is different from the daily exchange rate.

Thus there is a difference between the actual value at the daily exchange rate and the accounting balance in basic currency. This accounting difference is called the exchange rate difference.

The difference between the balance in basic currency and the value calculated has to be registered, when the accounting is closed, as an exchange rate profit or loss.

Currency Table

Before defining the various accounts it is necessary to specify parameters for the currencies that you want to use. Before opening an account, you need to define the symbol of the currency.

The symbols, parameters and exchange rates to be used are entered in the Exchange Rate table..

Opening exchange rate: is the exchange used to convert the opening balances to basic currency.

Current exchange rate: is the exchange used automatically for entries and for the revaluation of the balances.

Closing exchange rate: is the current exchange rate used at the closing of the accounts.

Accounts	Currency Ref.	Foreign Currency	Text	Fixed	Mult.	Exchange rate	Opening Exchange	Decimal Points
1	USD	EUR	Euro		1.00	1.109590	1.109590	
2	USD	CHF	Swiss Francs		1.00	1.695800	1.695800	
3								

Exchange rate table for multi-currency accounting

Balances in another Currency (Currency2)

All the accounting reports will be calculated in basic currency. If you take the basic currency values and change them to another currency, you will get the balance in another currency. The program has a Currency2 column where all the values are automatically entered and presented in the currency specified as Currency2.

The logic for the conversion of the amounts is the following:

- If Currency2 is the same as the account or operation currency, then the original value will be used.
If the account is in USD and Currency2 is USD, the USD amount will be used.
- In all other cases the basic currency amount will be used and changed into Currency2.
- The daily exchange rate is used. Even for past entries, the conversion to Currency2 will be expressed on the basis of the most recent exchange rate used on the day of the entry, and not on the historical one.

You need to pay attention to the fact that a balance converted to another currency will show small differences in the totals. Often the converted value of a total is not equal to the sum of split conversions, as can be seen from the following example:

	Basic currency EUR	Currency 2 USD
Cash	1.08	1.02
Bank	1.08	1.02
Total Assets	2.16	2.04
Personal capital	2.16	2.03
Total Liabilities	2.16	2.03

In the basic currency, total assets are equal to total liabilities. To present a Balance Sheet that contains differences is permitted if they are understandable and if it is indicated that they were due to calculations from another currency.

Banana - [Double-Entry with foreign currencies - 1]									
File Edit Data Format Options Account1 Account2 Window ?									
ASSETS									
Accounts		Transactions		Totals		Foreign Exchange		A	
Account	Description	Currency	Balance USD	Opening EUR*	Trans. Debit EUR*	Trans. Credit EUR*	Balance EUR*	Calc. Balance EUR*	
2	ASSETS								
3 1000	Cash	USD	9'270.00	1'110.00	9'265.00	89.00	10'286.00	10'286.00	
4 1010	Post office current account	USD	2'150.00	2'774.00		388.00	2'386.00	2'386.00	
5 1020	Bank 1	USD	34'700.00	38'836.00		333.00	38'503.00	38'503.00	
6 1025	Bank EUR	EUR	-1'351.85			1'500.00	-1'500.00	-1'500.00	
7 1100	Clients	USD							
8	Total Clients		1'000.00	1'110			1'110	1'110	
9 1150	Prepaid taxes	USD							
10 1170	Recoverable VAT (previous period)	USD							
11 1200	Inventory	USD							
Account	Transac	Balance	Currency	Budget	Previous	Period	Other	Print	Z
2/89									
CAPS NUM SCRL OVR									

Account Table, Currency2 View

Chapter 3

Schedule of Accounts and Opening Balances

Create the Accounts

On the schedule of accounts you have to specify the account currency for each account. This currency should already have been defined in the exchange rate table.

You also need to indicate the basic class for each account:

- 1 Assets
- 2 Liabilities
- 3 Expenses
- 4 Revenue

The off balance classes are only used to register entries that do not have to figure on the Balance Sheet (letters of credit, guarantee commitments). These are particular cases.

- 5 Off-balance assets
- 6 Off-balance liabilities

Balance Sheet (Assets/Liabilities)

Accounts for the Balance Sheet (assets and liabilities) can be held in any currency.

Accounts		Transactions		Totals		Foreign Exchange		
Group	Account	Description	3 Clas	Gr	Currency	Opening Balance	Opening USD	Balance USD
2		ASSETS						
3	1000	Cash	1	1	USD	1'000.00	1'000.00	9'270.00
4	1010	Post office current account	1	1	USD	2'500.00	2'500.00	2'150.00
5	1020	Bank 1	1	1	USD	35'000.00	35'000.00	34'700.00
6	1025	Bank EUR	1	1	EUR			-1'500.00
7	1100	Clients	1	1	USD			
8	10	Total Clients		1			1'000.00	1'000.00
9	1150	Prepaid taxes	1	1	USD			
10	1170	Recoverable VAT (previous	1	1	USD			
11	1200	Inventory	1	1	USD			

Account table

Profit & Loss Statement (Expenses/Revenue)

Expenses and revenue have to be entered at the entry date exchange rate and therefore have to be in basic currency. The accounts for the Profit & Loss Statement (class 3 expenses and class 4 revenue) have to be in basic currency.

Define the Opening Exchange Rates

On the Exchange Rate table you need to input the opening exchange rate for each currency. The opening rate is the same as the closing one for the previous year.

The opening exchange rate should not change during the year. If it gets changed, exchange rate differences in the opening balances could result.

When the opening exchange rate is altered, conversions to basic currency in the opening balances are not automatically recalculated. If there are opening balances in other currencies and the opening exchange rates are altered, it becomes necessary to use the recheck/recalculate the accounting command. In this way the opening balances are converted to basic currency using the new exchange rate.

Opening Balances

The various opening balances should be input in the "Opening" column of the schedule of accounts. It is understood that these amounts are always in the currency of the particular account. The program will convert these amounts to basic currency using the opening exchange rate specified on the exchange rate table

	<i>Class</i>	<i>Currency</i>	<i>Currency at opening</i>	<i>Basic currency EUR at opening</i>
Basic Currency EUR				
Cash	1	EUR	93.80	93.80
Bank	1	USD	100.00	106.20
Real estate	1	EUR	1'000.00	1'000.00
Total Assets				1'200.00
Loan	2	USD	-500.00	-531.00
Personal capital	2	EUR	-669.00	-669.00
Total Liabilities				-1'200.00

Total Difference in Exchange

If no opening exchange rate has been input on the exchange rate table then there will be no conversion. The amount in the basic currency EUR at opening will be blank even if there is a balance in the other currency.

Balancing the Balance Sheet (in Basic Currency)

At the opening, the conversion to basic currency of total assets should correspond to total liabilities (on the minus side). Thus the totals of assets and liabilities should be equal to one another.

If total assets do not correspond to total liabilities, then the accounting does not balance and is therefore not correct.

A difference in opening balances can be caused by various things:

- An amount has been incorrectly input

- Credit balances have not been input in the minus column
- Opening exchange rates have not been correctly indicated
- Exchange rate differences at the end of the previous year have not been registered.
- There is a rounding difference due to a different way of calculating the conversion.

Accounts		Transactions	Totals	Foreign Exchange	
	Group	Description	GR	Opening USD	Balance USD
1	1	Total Assets	01	39'500.00	39'500.00
2	2	Total Liabilities	01	-39'500.00	-39'500.00
3	01	Net Profit(+) Loss(-) from Balance Sheet	00		
4	3	Total Expenses	02		
5	4	Total Revenues	02		
6	02	Loss(+) Profit(-) from Profit & Loss Statement	00		
7	00	Difference should be = 0 (nil)			
8	5	Total off balance sheet: Assets			
9	6	Total off balance sheet: Liabilities			
10	7	Total class 7			
Totals			Complete		

Count=13 Sum=0.00

Totals Table

Rounding and Opening Differences

When bringing forward data using software packages with different rounding methods, it can happen that there are minimum (0.01) differences between assets and liabilities.

If the exchange rate differences were not registered at the end of the previous year, then you will have to do so at the beginning of the new.

You will then find yourself with a difference between the opening balances and those for the closing. Hypothetically, if the previous year has already been closed, then there is nothing for it but to register the differences on the Profit & Loss Account for the current year.

The first things to do is to add a transitory account to the balance. This account, in basic currency, will have the difference between total assets and liabilities as its balance. Then the opening balances will balance correctly.

As the first entry of the year, an operation is input that carries this initial difference to the Profit & Loss account. Then the balance of the transitory account is zero, using the exchange rate differences account as the entry on the other side.

Historical Exchange Rates

Certain investments (shares, real estate abroad) are valued using an historical exchange and not the current one. The exchange rate profit and loss is not accounted for until it is actually realized. You must therefore make certain these accounts do not get valued using the current exchange rate.

In order to input a fixed, historical exchange, you need to create a supplementary currency on the account table (e.g. USD1) with a fixed exchange rate. This currency will then only be used for this account with a fixed rate.

<i>Reference currency</i>	<i>Currency</i>	<i>Description</i>	<i>Opening Exchange Rate</i>	<i>Exchange Rate</i>
EUR	USD	USD	0.9416	0.8792
EUR	USD1	USD fixed rate for investments	0.9512	0.9512

If you have to make a transfer from the USD account to the USD1 account, you proceed exactly as if you were working with two different currencies. For this reason you will have to use a two-line entry.

Opening with Special Exchange Rates

Inputting the opening balances in the “opening” column, foreign currency amounts will be converted to basic currency at the opening exchange rate.

If this system proves not to be flexible enough (you need various special rates or there are rounding differences) the opening can be made by making normal entries and leaving the opening column blank.

In this case for each account with an opening balance you need to create an opening entry. In this way you can indicate the amounts and the exchange rates you want for each account.

Chapter 4

Revaluations, Exchange Rate Differences

Exchange rates vary all the time so that conversion to basic currency on the foreign currency accounts will also change. The positions in foreign currency have to be revalued so that accounting adjustments will have to be made (exchange rate differences).

Exchange rate differences are not accounting errors but simple adjustments to the figures made necessary in order to keep the accounting figures in step with normal fluctuations.

As you open the accounting, the figures in the balance column are equal to those present in the opening column. When there are entries, these will update the figures in the balance column. The calculated balance column contains the conversion to basic currency for the account, at the daily exchange (on the exchange rate table). The difference between the balance in basic currency and the calculated balance is the exchange rate difference.

		<i>Currency at opening</i>	<i>Conversion opening EUR</i>	<i>Basic Currency Balance EUR</i>	<i>Calculated Ba- lance at 30.03.01 EUR</i>	<i>Exchange rate difference</i>
Exchange rate			0.9416	0.9416	0.8495	
Cash	EUR	93.80	93.80	93.80	93.80	
Bank	USD	100.00	106.20	106.20	113.74	7.54
Real estate	EUR	1'000.00	1'000.00	1'000.00	1'000.00	
Total Assets			1'200.00	1'200.00	1'207.54	
Loan	USD	-500.00	-531.01	-531.01	-568.70	-37.69
Personal capital	EUR	-669.00	-668.99	-668.99	-668.99	
Total Liabilities			-1'200.00	-1'200.00	-1'237.69	
Loss					-30.15	-30.15

At 30th March the EUR/USD exchange rate is different from the one at the beginning of the year. In the above example there were no accounting entries during the three-month period. The situation, from an accounting point of view, has not changed since the beginning of the year. Despite this the total of the updated balance, using the rate at the end of March, is different when compared to the beginning of the year. The credit bank balance and the loan in USD have a different value in EUR. There are therefore consequences for the accounting even though there have been no entries.

In the above example, you will notice that the Euro is now worth less against the dollar compared to the beginning of the year. The dollar is therefore worth more against the Euro.

The conversion of the credits (credit accounts) in USD is greater than it was at the beginning of the year. You have a greater worth and therefore a profit on the exchange rate. On the debit side there is a USD 500.00 loan. Now the conversion to EUR is greater compared to the value input at the

beginning of the year. The value of the loan having thus increased due to the exchange rate, brings about a loss in the amount of the difference.

In the following example we shall use the hypothesis that there has been the opposite development. We imagine that the Euro has increased in value and is therefore worth more against the USD. Conversion to EUR of an amount in dollars is less than the conversion at the beginning of the year.

		<i>Currency at opening</i>	<i>Conversion at opening EUR</i>	<i>Calculated balance at 30.03.01 EUR (hypothetical)</i>	<i>Exchange rate difference</i>
Exchange rate			0.9416	0.9800	
Cash	EUR	93.80	93.80	93.80	
Bank	USD	100.00	106.20	102.04	-4.16
Real estate	EUR	1'000.00	1'000.00	1'000.00	
Total Assets			1'200.00	1'195.84	
Loan	USD	-500.00	-531.01	-510.30	20.71
Personal capital	EUR	-669.00	-668.99	-668.99	
Totale Liabilities			-1'200.00	-1'179.29	
Profit				16.55	16.55

As a consequence of an increase in the Euro/dollar exchange rate, you have a USD bank deposit with a conversion to EUR which is less than at the beginning of the year. The total worth has diminished and there is therefore a loss.

The USD loan has a lower conversion to the EUR. A lesser liability is an advantage for the company and there is thus an exchange rate profit.

Exchange Rate Profits

You have an exchange rate profit when you

- Increase the conversion of your assets (increase the investments)
- Decrease the conversion of your liabilities (decrease the loans).

Exchange Rate Losses

You have an exchange rate loss when you

- Decrease the conversion of your assets (decrease the investments)
- Increase the conversion of your liabilities (increase the loans).

Accounting Features for Exchange Rate Differences

Exchange rates can evolve in different ways. Often they rise, only to fall again. The principle rule for accounting is that the figures written on the Balance Sheet must be true ones. When you present your Balance Sheet, the conversion of foreign currency accounts must be made at the exchange rate on the day of presentation. The exchange rate difference is calculated as if you had to definitively convert the amount to basic currency. In reality there is no definitive conversion so you are only dealing with a correction to the accounting.

Establish the Exchange Rate

The exchange rate difference is determined by the exchange rate. By inputting the updated rates onto the exchange rate table, the program will calculate conversions at the daily rate and will indicate whether there are any exchange rate profits or losses. The exchange rate difference depends on the rates inserted on the table.

Each day there is a new rate so the balances will also change on a daily basis. Except in very special cases, it is not necessary to update the exchange rate table daily. Updating the rates can be done when it becomes necessary to print the updated or definitive returns.

Closing Exchange Rate

At the end of each year it is necessary to prepare the complete Balance Sheet. The exchange rates thus have to be updated with the closing rates. It is also then necessary to enter the exchange rate differences once and for all; if these are not entered, then there will be differences in the opening balances.

Enter the Exchange Rate Differences

Accounting status before entering the exchange rate differences

		<i>Currency balance</i>	<i>Accounting balance EUR</i>	<i>Calculated balance at 30.03.01 EUR (hypothetical)</i>	<i>Exchange rate difference</i>
Exchange				0.9800	
Bank	USD	100.00	106.20	102.04	-4.16
Exchange rate difference	EUR				

As can be seen from the above example, the bank balance is USD 100.00. For the accounting it has been valued at 106.20 EUR. Today's actual exchange, though, is only EUR 102.04. There is an EUR 4.16 difference in basic currency. The entry must therefore decrease the EUR amount. You proceed with a transaction that debits the bank account and credits the exchange rate loss account by EUR 4.16.

As you can see, the actual bank account balance of USD 100.00 has not been altered. The entry only alters the basic currency balance.

After the entry has been made for the exchange rate difference, the situation is the following:

		<i>Currency balance</i>	<i>Accounting balance EUR</i>	<i>Accounting balance at 30.03.01 EUR (hypothetical)</i>	<i>Exchange rate difference</i>
Exchange				0.9800	
Bank	USD	100.00	102.20	102.04	
Exchange rate difference	EUR	4.16	4.16	4.16	

When entering the exchange rate difference you need to be sure that the conversion to basic currency corresponds to the actual conversion calculated at either the daily exchange rate or the closing one.

The figures in the account currency must not be altered. You must therefore proceed to make an entry that only alters the basic currency balance on the specific account.

As the account on the other side you will have the exchange rate profit or loss account.

Chapter 5

Entering Multi-Currency Operations

Entry Fields

For each entry in a multi-currency accounting you have to specify:

- The currency symbol
- The amount in that currency
- The exchange rate
- The amount in basic currency
- Debit account
- Credit account

Types of Entries Allowed

For each entry there are two accounts (debit account and credit account) and there can be the following direct combinations :

- Entries between two accounts in basic currency (EUR EUR)
- Entries between an account in another currency and one in basic currency (USD EUR)
- Entries between two accounts in the same foreign currency (USD USD), but not in basic currency

It is not possible to register a transfer between two accounts in different foreign currencies on the same line when one is not the basic currency (USD YEN).

Exchange Rate to be Used

The daily exchange rate is normally used for transactions. The program will propose the rate input on the exchange rate table.

For certain operations you need to keep in mind that it might be necessary to use a predefined exchange rate (banking transactions). In these cases you need to use the indicated rate and the program will automatically calculate the conversion to basic currency. Banks specify exchange rates with few figures after the decimal point and often round the amounts. On these occasions you input the conversion to basic currency and leave it to the program to work out the actual exchange rate.

The exchange rate used can influence the calculation of IVA. If you invoice goods to a customer from your country in USD, the calculation of IVA will be made on the EUR conversion. The exchange rate used will determine the amount of IVA due. National IVA legislation will tell you which exchange rates to use under such circumstances.

Other factors can determine the exchange rate to be used. For some kinds of transactions, loans and interests, an historical exchange rate is often used, independent from exchange rate fluctuations.

Entries in Basic Currency

This is a simple entry. The amount in one currency and basic currency are one and the same.

<i>Date</i>	<i>Doc</i>	<i>Description</i>	<i>Debit A/C</i>	<i>Credit A/C</i>	<i>Currency amount</i>	<i>Currency</i>	<i>Exchange</i>	<i>EUR amount</i>
1.1.2001	1	Transfer	1000	1001	100.00	EUR	1.0000	100.00

Both the 1000 account and the 1001 account are in basic currency EUR.

Entering on an Account in a Currency other than Basic Currency

You can only enter in the account currency on any single account. The entry currency must be the same as that of the account. The amount must be expressed in the account currency.

You must then indicate the amount in basic currency.

If you enter on a USD account, the currency used for the entry must be USD. The entry on the other side can be either in USD or in basic currency EUR.

1000 account in EUR

1010 account in USD

<i>Date</i>	<i>Doc</i>	<i>Description</i>	<i>Debit A/C</i>	<i>Credit A/C</i>	<i>Currency amount</i>	<i>Currency</i>	<i>Exchange</i>	<i>EUR amount</i>
1.1.2001	1	Exchange	1000	1010	100.00	USD	0.9416	106.20

The EUR amount of 106.20 is entered on the 1000 account

The USD amount of 100.00 is entered on the 1010 account in foreign currency and as EUR 106.20 for the basic currency.

Entries between two Accounts in Currency other than Basic Currency

On one account you can only enter in the currency of that account. The entry currency has to be equal to that of the account. The amount has to be expressed in the account currency.

You have to indicate the amount in basic currency.

If you enter on a USD account, the entry currency has to be USD. The entry on the other side can be either in USD or in basic currency EUR.

1010 account in dollars

1011 account in dollars

<i>Date</i>	<i>Doc</i>	<i>Description</i>	<i>Debit A/C</i>	<i>Credit A/C</i>	<i>Currency Amount</i>	<i>Currency</i>	<i>Exchange</i>	<i>EUR amount</i>
1.1.2001	1	Exchange	1010	1011	100.00	USD	0.9416	106.20

The amount of USD 100.00 is entered in dollars on the 1010 account and EUR 106.20 in basic currency EUR.

The amount of USD 100.00 in dollars and EUR 106.20 in basic currency EUR is entered on account 1011.

Entries between two Different Currencies

When there is an operation between two different currencies, USD/YEN for example, it is not possible to make the entry on a single entry line.

You will have to use two entry lines and make the entry in such a way that the two different operations have an account in basic currency on the other side.

1010 account in USD

1020 account in YEN

<i>Date</i>	<i>Doc</i>	<i>Description</i>	<i>Debit A/C</i>	<i>Credit A/C</i>	<i>Currency Amount</i>	<i>Currency</i>	<i>Exchange</i>	<i>EUR amount</i>
1.1.2001	1	Exchange	1010		100.00	USD	0.9416	106.20
1.1.2001	1	Exchange		1020	11'454.75	YEN	107.86	106.20

The amount of USD 100.00 in dollars and EUR 106.20 for the EUR balance are entered on the 1010 account.

The amount of YEN 11'454.75 and EUR 106.20 in basic currency (EUR) are entered on the 1020 account.

Entering Small Expenses without a Relative Account

For when you travel to another country, change money to the local currency and have expenses in this currency. In order to enter the amounts directly in the local currency for your accounting, you need to have an account (cash, for example) in the local currency. If you don't want to open an account in the accounting for these small expenses, you will have to manually convert the amounts and enter them in basic currency.

Entering Exchange Rate Differences

The bank account balance is USD 100.00 with a conversion to basic currency in your accounting of 106.20. You have an exchange rate loss of EUR 4.16 which needs to be entered only in basic currency.

		<i>Currency balance</i>	<i>EUR balance</i>	<i>EUR balance calculated at 30.03.01</i>	<i>Exchange rate difference</i>
Exchange				0.9800	
Bank	USD	100.00	106.20	102.04	-4.16

<i>Date</i>	<i>Doc</i>	<i>Description</i>	<i>Debit A/C</i>	<i>Credit A/C</i>	<i>Currency amount</i>	<i>Currency</i>	<i>Exchange</i>	<i>EUR amount</i>
30.03.01	44	Exchange rate difference	3100	1010		EUR	1.0000	4.16

For the exchange rate difference entry you have to leave the currency amount blank. Only the basic currency amount will be altered.

Entries on Accounts Kept Using Historical Exchange Rates

When the positions with historical exchange rates are increased or decreased, you have to calculate the exchange for the exchange rate table taking into account the development of the amounts being brought forward.

	<i>USD amount</i>	<i>Exchange</i>	<i>EUR conversion</i>	<i>Total USD</i>	<i>Total EUR</i>	<i>Historical Exchange</i>
Acquisition of shares	100'000.00	0.9416	106'202.00	100'000.00	106'202.00	0.9416
Increase if shares	50'000.00	0.8792	56'870.00	150'000.00	163'072.00	0.919839

Chapter 6

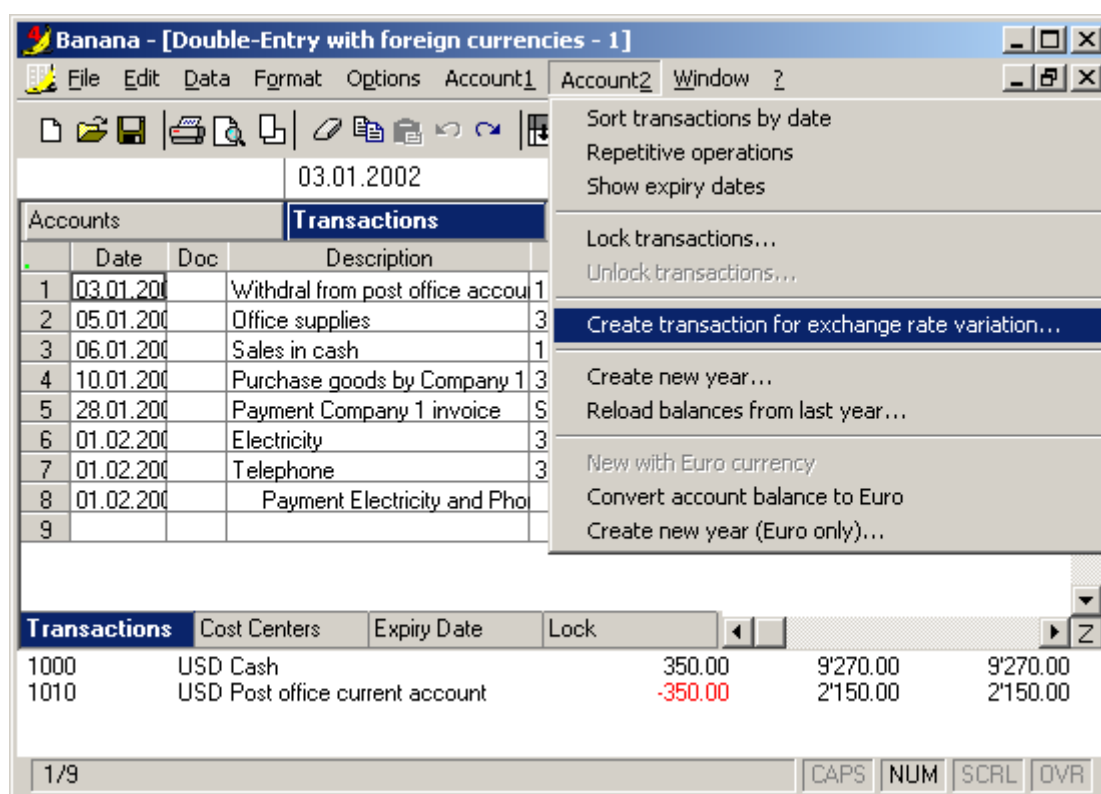
Sundry Functions

Revaluations: Create Exchange Rate Difference Entries

The program calculates exchange rate differences automatically. When it becomes necessary to enter the exchange rate differences, you have to proceed in the following way:

- In the basic accounting data (Option command under Menu – Basic data) you have to indicate the accounts for the exchange rate profits or losses. You can even indicate the same account.
- Update the exchange rate table with the closing rates or those for the end of a period.
- Execute the command “create transaction for exchange rate variation...” in the Account2 menu.

The automatically created entries can be cancelled or altered just like any other entry.



Account2 command –Create exchange rate difference entry

Chapter 7

End of Year Procedures

At the end of the year you have to proceed in the following way:

- Input any entries necessary for the transfer to the new year.
(Transitory, amortisation, *delcredere*, warehouse, exchange rate differences).
- In the basic accounting data you have to indicate the accounts destined for exchange rate profit and loss. You can indicate the same account.
- Update the exchange rate table with the closing exchange rates, or those for the end of a period.
- Check there are no differences on the Totals table.
Correct any eventual differences (opening balances or entry differences)
- Recalculate the account. Correct any eventual errors that show up. Keep using this command until all the errors have been eliminated.
- Give the create exchange rate difference entry command.

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